APPENDIX E — OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK DATED SEPTEMBER 10, 1998 AND FILED SEPTEMBER 11, 1998

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

96 Civ. 2579 (HB)

ACCUSCAN, INC.,

Plaintiff,

– against –

XEROX CORP.,

Defendant.

OPINION AND ORDER

Hon. Harold Baer, Jr., District Judge:

Following a trial in this patent infringement action, the jury rendered a verdict on April 1, 1998, in favor of plaintiff AccuScan, Inc. ("AccuScan") for $40 million. The jury concluded: (1) that several products of defendant Xerox Corporation ("Xerox"), specifically, the Docutech, the 5775 color copier, the SA4 Scanner and the 7017/7020/7021 facsimile machines, infringed claims 1 and 17 of U.S. Patent No. 3,952,144 ("the '144 patent"); and (2) that the '144 patent

was valid.[1] The jury also concluded that Xerox had not willfully infringed the '144 patent.

Xerox now moves, pursuant to Fed. R. Civ. P. 50(b) for judgment as a matter of law that none of the accused Xerox products infringe the '144 patent and that the asserted claims are invalid, or, in the alternative, for a new trial under Fed. R. Civ. P. 50(c) and 59. Xerox also moves for judgment as a matter of law under Rule 50(b) with respect to the jury's $40 million damages award, and requests a new trial on damages pursuant to Rules 50(c) and 59. AccuScan moves pursuant to Rule 50(b) for entry of judgment as a matter of law that Xerox's infringement of the '144 patent was willful. For the reasons set forth below, Xerox's motion for judgment of non-infringement or invalidity or for a new trial on the issue of liability is DENIED, Xerox's motion for a new trial on the issue of damages is GRANTED and AccuScan's motion for entry of a judgment of willfulness is DENIED.

BACKGROUND

In this action, AccuScan accused Xerox's products of infringing claims 1 and 17 of its '144 patent. AccuScan was started as a small company in about 1971, which was then known as Phonapix. Peter Heller, the President of AccuScan, was one of the original investors in AccuScan. (Tr. 278). The '144 patent relates to the calibration of electric signals in products like facsimile machines, scanners and digital

1. The jury also rendered an advisory verdict with respect to Xerox's defense of laches; by Order and Opinion dated May 26, 1998 I found, in accord with the jury's advisory verdict, that Xerox had failed to establish its defense of laches.

copiers. It issued on April 20, 1976, listing Carl Kolker as the sole inventor. Kolker was hired by AccuScan in about July of 1971, but is no longer employed by AccuScan. (Tr. 57). Kolker's invention allows the accurate reproduction of grey scale images, *i.e.*, images that not only contain black and white information, such as the alphanumeric information that might appear in a letter, but also images that have continuous shades from black to white, such as might be found in a photograph. The '144 patent describes a device and method for adjusting an input signal to correct for undesired variations.

The specific system described in the '144 patent consists of circuitry, which makes a preliminary calibrating scan of a black area and a white area, and stores the signal corresponding to the black area (V_b) and the signal corresponding to the white area (V_w). When the document is scanned, the circuitry subtracts the value V_b from the input signal (V_{in}) to remove any offset values, and divides this difference by the difference between the two signals V_w and V_b to ensure that the output signal V_o varies between 0 and 1. The result is defined by the following equation, $V_o = (V_{in} - V_b)/(V_w - V_b)$.

DISCUSSION

I. *Legal Standard for Judgment as a Matter of Law*

Federal Rule of Civil Procedure 50(a) provides:

> If during a trial by jury a party has been fully heard on an issue and there is no legally sufficient evidentiary basis for a reasonable jury to find for

> that party on that issue, the court may determine the issue against that party and may grant a motion for judgment as a matter of law against that party with respect to a claim or defense that cannot under the controlling law be maintained or defeated without a favorable finding on that issue.

In deciding whether judgment as a matter of law is warranted, the question is "whether the evidence is such that, without weighing the credibility of witnesses or otherwise considering the weight of the evidence, there can be but one conclusion as to the verdict that reasonable [people] could have reached." *Mallis v. Bankers Trust Co.*, 717 F.2d 683, 688 (2d Cir. 1983) (quoting *Mattivi v. South African Marine Corp., Huguenot*, 618 F.2d 163, 167 (2d Cir. 1980)). The trial court should grant judgment as a matter of law only when: (1) there is such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or (2) there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair minded people could not arrive at a verdict against the movant. *See Lambert v. Genesee Hosp.*, 10 F.3d 46, 56 (2d Cir. 1993), *cert. denied*, 511 U.S. 1052 (1994). On a motion for judgment as a matter of law, the trial court must "consider all the evidence in a light most favorable to the non-mover, must draw reasonable inferences favorable to the non-mover, must not determine credibility of witnesses, and must not substitute its choice for that of the jury between conflicting elements in the evidence." *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 893 (Fed. Cir.), *cert. denied*, 469 U.S. 857 (1984).

Appendix E

II. *Infringement*

In deciding whether an accused device infringes a patent, the scope of the patent claims, which is strictly a legal issue, must be determined. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 384-91 (1996). Once the Court construes the claims of the patents, which here was done in large measure with the assistance of an independent expert chosen by the parties, the issue of infringement is a factual issue for the jury. *SRI Int'l v. Matsushita Elec. Corp. of America*, 775 F.2d 1107, 1125 (Fed. Cir. 1985) (*in banc*). A patent can be infringed in two ways — literally or under the doctrine of equivalents. Literal infringement requires that each feature of the patent claim is found in the accused device. *See Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1563 (Fed. Cir. 1996), *cert. denied*, 117 S. Ct. 1818 (1997). Infringement under the doctrine of equivalents can be found only if the accused device contains elements identical or equivalent to each claimed element of the patented invention. *See id.* at 1566.

Xerox argues that a reasonable jury could not have concluded that the Docutech, the 5775 color copier, the SA4 Scanner and the 7017/7020/7021 facsimile machines infringe claims 1 and 17 of AccuScan's patent literally or under the doctrine of equivalents. Upon consideration of Xerox's arguments, I disagree. There was competent evidence in the record as testified to by AccuScan's expert Leonard Zuckerman ("Zuckerman") that Xerox's Docutech contains each element of claims 1 and 17 of the '144 patent or the equivalent, as construed by this Court. (Tr. 128-141). Zuckerman also testified that Xerox's 5775 copier,

SA4 scanner and 7017/20/21 facsimile machines each contain every element of claims 1 and 17 of the '144 patent or the equivalent. (Tr. 148-163, 172-183, 163-174). Moreover, Xerox's in-house attorney stated, in an internal memorandum that, in reviewing the '144 patent, claims 1 and 17, among others, "appear to potentially read on applications of the invention to digital systems, similar to those found in document scanners and current facsimile products." (PTX 152). Although Xerox's expert testified that the accused products do not infringe claims 1 and 17 of the '144 patent as construed by this Court (Tr. 624, 633-665), it is the jury's province to weigh this conflicting evidence. Viewing all the evidence in the light most favorable to AccuScan and drawing reasonable inferences favorable to AccuScan, as I must in the context of this motion, I find that there was substantial evidence to support the jury's verdict on the issue of infringement.

III. *Validity*

A. On Sale Bar

Xerox also challenges the jury's finding that the '144 patent is not invalid under the "on sale" bar of 35 U.S.C. § 102(b). Because patents are presumed to be valid, Xerox has the burden of proving that the '144 patent is invalid by clear and convincing evidence. *Buildex Inc. v. Kason Industries, Inc.*, 849 F.2d 1461, 1463 (Fed. Cir. 1988). Section 102(b) provides that an inventor is not entitled to a patent if "the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States," which is known as the critical date. In order

for an invention to be "on sale" within the meaning of § 102(b), there must be a definite sale or offer for sale of the claimed invention prior to the critical date. *Pfaff v. Wells Electronics, Inc.*, 124 F.3d 1429, 1433 (Fed. Cir. 1997), *cert. granted*, 118 S. Ct. 1183 (1998). Although the issue of whether an invention is "on sale" within the meaning of § 102(b) is ultimately a question of law, this issue involves underlying questions of fact. *See Pfaff*, 124 F.3d at 1432; *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544, 549 (Fed. Cir. 1990).

Here, the '144 patent was filed on October 2, 1974 and thus activities before October 2, 1973 can give rise to an on sale bar. Xerox argues that two events prior to this date constituted placing the patented invention "on sale." First, Xerox points to AccuScan's response to a request for proposal by the California Crime Technology Research Foundation ("CCTRF") in January 1973. Second, Xerox argues that AccuScan offered to sell the patented technology at a meeting that was held in August 1973 between AccuScan and Xerox. AccuScan contends that a reasonable jury could have found that the invention was not placed "on sale" within the meaning of section 102(b) in either instance because AccuScan was merely engaging in developmental and testing activities. *See Continental Can Co. USA, Inc. v. Monsanto Co.*, 948 F.2d 1264, 1269-70 (Fed. Cir. 1991) (on sale bar does not arise where an inventor is merely engaging in developmental and testing activities, even where intended customer was participating in development and testing); *see also Great Northern Corp. v. Davis Core & Pad Co., Inc.*, 782 F.2d 159, 165 (Fed. Cir. 1986); *Poole v. Mossinghoff*, 214 U.S.P.Q. 506, 508-09 (D.D.C. 1982).

Upon a review of the evidence, I find that a reasonable jury could have found that Xerox failed to meet its burden of proving by clear and convincing evidence that the patented invention was placed "on sale" prior to the critical date. First, the '144 patent was never sold at any time. (Tr. 757, 770). Moreover, with respect to the CCTRF proposal, in January 1973, AccuScan (then known as Phonapix) responded to a request for proposal by CCTRF, which sought a system that would transmit fingerprints. The proposal for this project indicated that it was a "developmental program." (DTX GT at A001831). Indeed, the project was described in the proposal as "Develop and Test Prototype Systems For Improved Method of Fingerprint Transmission." (DTX GT at A001835). Although Xerox's witness, Robert LaFond, a former Phonapix employee, testified that the purpose of the CCTRF proposal was to solicit business and that the Kolker invention was working at this time (Tr. 755-56), it is the jury's role to make credibility determinations and weigh conflicting evidence, in concert with the high burden of proof required to prove invalidity.[2]

Similarly, on April 16, 1973, AccuScan (then known as Faxon) contacted Xerox by letter regarding its new product developments. This letter states that the project was an "R & D effort." (DTX HI). The parties then held meetings on August 2, 1973 and August 16, 1973. At the August 16 meeting, Faxon representatives demonstrated a breadboard of its 811 facsimile machine, which included the Kolker

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2. Moreover, there was some question as to whether the Kolker invention was even involved in the CCTRF proposal since the prospectus did not identify Kolker as one of the individuals involved in the project. (*See* DTX GT).

circuit. The report of Xerox witness Charles Jacobson dated August 20, 1973, indicated that the model viewed "was at a relatively early stage of development, certainly no farther advanced than an engineering model" and according to plaintiff, it was hardly saleable. (DTX JZ; *see also* Tr. 464-65). Moreover, a memorandum prepared by Faxon representative John Ransom indicated that one of Faxon's objectives was to obtain "[a]dequate funding to bring the 811 to the point of product announcement." (DTX H). Similarly, Kolker testified that the purpose of the meetings with Xerox was to have Xerox enter into a research and developmental program with Faxon. He further testified that AccuScan did not offer to sell products to Xerox, as there was "nothing to sell." (Tr. 79, 83-84, 103). Although prices were discussed between Xerox and AccuScan, the "on sale" bar does not arise simply because prices and quantities were discussed. *Continental Can*, 948 F.2d at 1270. Accordingly, there was substantial evidence to support the jury's finding that the patent was not invalid under the "on sale" bar.[3]

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3. Xerox argues that although the 811 machine may have been in the developmental stages in August 1973, the Kolker circuit had already been shown to work for its intended purpose at this time, and thus the experimental use exception to the on-sale bar does not apply. *See RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1061 (Fed. Cir. 1989) (an offer to sell A, a device reduced to practice, in combination with B, the combination not having been reduced to practice is not an experimental use of A). However, there was evidence in the record (*See* Tr. 80-81, 95-96) from which a jury could conclude that the Kolker circuit was not yet reduced to practice, *i.e.*, it had not yet been satisfactorily tested to show that it would actually work for its intended purpose. *See Scott v. Finney*, 34 F.3d 1058, 1060-62 (Fed. Cir. 1994).

Appendix E

B. Anticipation and Obviousness

Xerox also challenges the jury's finding that the '144 patent is not invalid as anticipated by the prior art or as obvious. Under 35 U.S.C. § 102(e), an inventor cannot obtain a patent if "the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for the patent." Anticipation must be proven by clear and convincing evidence establishing that the subject matter of the claim is identically described in a single prior art reference. *See Gechter v. Davidson*, 116 F.3d 1454, 1457 (Fed. Cir. 1997). Pursuant to 35 U.S.C. § 103, a patent claim that is not anticipated by the prior art may nevertheless be invalid if the invention set forth in the claim would have been obvious to a person of ordinary skill in the art at the time of invention. *See Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1574 (Fed. Cir. 1986). Although obviousness is ultimately a question of law for the court, based on the factual underpinnings, a court may submit the ultimate legal question of obviousness to the jury, with proper instructions. *In re Hayes Microcomputer Prods., Inc. Patent Litig.*, 982 F.2d 1527, 1539 (Fed. Cir. 1992).

Xerox argues that four prior art references — the IBM Technical Disclosure Bulletin (the "IBM Bulletin") and U.S. Patents Nos. 3,800,078 (" '078 patent"), 3,800,079 (" '079 patent") and 3,962,681 (" '681 patent") — contain all of the features recited in claims 1 and 17 of the '144 patent. Alternatively, Xerox contends that claims 1 and 17 are obvious over the prior art. However, I find that a reasonable jury could have found that Xerox failed to meet its burden to

prove by clear and convincing evidence that the '144 was invalid as anticipated or obvious. At trial, Zuckerman testified that the IBM Bulletin differs from claims 1 and 17 of the '144 patent in that the references are not fixed before the input signal is processed.[4] (Tr. 862-63). In addition, Xerox's expert Ralph Grant ("Grant") testified at his deposition, which was read into evidence at trial, that these claims are valid in light of the IBM Bulletin.[5] (Tr. 693-94). Zuckerman also testified that the '144 patent is not obvious in light of the IBM Bulletin. (Tr. 860).

With respect to the '078 patent, Zuckerman testified that it differs from the '144 patent because in the '078 patent, there is no fixed white reference, but rather the white background area can vary. He also testified that there is nothing in the '078 patent that renders the '144 patent obvious. (Tr. 864). Further, Zuckerman testified that the '079 patent does not use the equation found in the Kolker patent and that it does not render the '144 patent obvious. (Tr. 865-866). Moreover, Grant testified at his deposition, which was

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4. Xerox challenges the significance of this difference; however, under 35 U.S.C. § 102, "every limitation of a claim must identically appear in a single prior art reference for it to anticipate the claim." *Gechter*, 116 F.3d at 1457. Moreover, the IBM Bulletin also differs from the '144 patent because the white and black samples are reversed; in the '144 patent, pursuant to this Court's claim construction, the first sample is black, whereas in the IBM Bulletin the first sample is white.

5. Although Grant changed his testimony at trial (as well as later in his deposition) and testified that the IBM Bulletin renders the patent invalid (Tr. 693-95), it is the jury's role to make credibility determinations and weigh the conflicting evidence.

read into evidence at trial, that neither the '078, the '079 or the '681 patent invalidate claims 1 and 17 of the '144 patent.[6] (Tr. 690-692).

Zuckerman also testified that all of the prior art references together do not make the '144 patent obvious to a person skilled in the art. (Tr. 862, 876). This testimony was corroborated by that of Grant, who testified at deposition that none of the above prior art references make obvious the claims of the '144 patent. (Tr. 692). The verdict of non-obviousness is also supported by the commercial success of the infringing products. (Tr. 860); *See Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1026 (Fed. Cir. 1985) (secondary considerations relevant to determining obviousness include commercial success of infringing products). Accordingly, I find there was substantial evidence from which a reasonable jury could conclude that Xerox failed to meet its burden to prove by clear and convincing evidence that the '144 patent was invalid as anticipated by the prior art references or as obvious.

IV. *Motion for a New Trial on Liability*

A district court may grant a new trial only where the jury reached, "a seriously erroneous result" or where the verdict is a "miscarriage of justice." *Sorlucco v. New York City Police Dept.*, 971 F.2d 864, 875 (2d Cir. 1992). Because, as discussed above, I find that the jury's verdict of infringement and validity is supported by substantial

6. Grant's testimony in this regard again changed at trial (Tr. 690), but, as discussed above, it is in the jury's province to weigh conflicting testimony.

evidence, I decline to exercise this discretion here with respect to the issue of liability.[7]

V. *Damages*

A. Adequacy of AccuScan's Proof

Where, as here, infringement has been shown, the law provides that the owner of the patent is entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. The royalty must be based on an established royalty, if there is one. If not, the royalty should be based upon the supposed result of a hypothetical negotiation between the plaintiff and the defendant. *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 867 (1995). This hypothetical negotiation requires the fact-finder to "envision the terms of a licensing agreement reached as the result of a supposed meeting between the patentee and the infringer at the time infringement began." *Id.* For purposes of the hypothetical negotiation, the patent in suit is presumed valid and infringed. *Mobil Oil Corp. v. Amoco Chems. Corp.*, 915 F. Supp. 1333, 1352-53 (D. Del. 1994). Here, the parties agreed, and the jury was instructed that the time of the

7. Xerox argues that a new trial is warranted based on my ruling at trial to exclude from evidence an opinion written by a previous AccuScan attorney, Marcus Millet. (DTX AKT). I adhere to my prior determination that this memorandum was inadmissible hearsay. Moreover, even assuming this determination was erroneous, I am unable to conclude that the exclusion of this memorandum constituted prejudicial error such that a new trial is warranted.

hypothetical negotiation was September 1986, just before infringement began. In determining the royalty that would have been reached at this hypothetical negotiation, the factfinder is to consider a variety of evidentiary factors, which were set forth in detail in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified on other grounds*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). The jury was charged that they should consider these factors in determining a reasonable royalty rate.[8]

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8. These factors are as follows: 1) the royalties received by the patentee for the licensing of the patent to others; 2) rates paid to license other patents comparable to the patent in suit; 3) the nature and scope of the license, as exclusive or nonexclusive, or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold; 4) the licensor's established policy and marketing program to maintain its patent's exclusivity by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that exclusivity; 5) the commercial relationship between licensor and licensee, such as whether they are competitors, in the same territory, in the same line of business, or whether they are inventor and promoter; 6) the effect of selling the patented product in promoting sales of other products of the licensee, the existing value of the invention to the licensor as a generator of sales of its non-patented items, and the extent of such derivative or collateral sales; 7) the duration of the patent and the term of the license; 8) the established profitability of the product made under the patent, its commercial success, and its current popularity; 9) the utility and advantages of the patented invention over the old modes or devices, if any, that had been used for working out similar results; 10) the nature of the patented invention, the character of the commercial embodiment of it as owned and produced by the licensor, and the benefits to those who have

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Xerox argues that if the correct legal standard is applied, the record is devoid of any relevant evidence to support the jury's damage award of $40 million. I agree. AccuScan's damages expert, Dr. Marion Stewart, testified that a reasonable royalty here would be 12.5%; applying this rate to Xerox's revenues for the infringing products for the period April 11, 1990 through April 20, 1993, he calculated that AccuScan's damages from infringement were $203,296,018.[9] (Tr. 370-71). In reaching this conclusion, he applied the following methodology. First, he examined the revenues that Xerox had received from the Docutech system from its introduction in late 1990 through 1997 and its projected

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used the invention; 11) the extent to which the infringer has made use of the invention, and any evidence probative of the value of that use; 12) the portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions; 13) the portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer; 14) the opinion testimony of qualified experts; and 15) the amount that a licensor and a licensee would have agreed upon if both had reasonably and voluntarily been trying to reach an agreement. *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

9. The jury was instructed that the patent damages should be calculated from April 11, 1990 — six years preceding the filing of the complaint in this action — to the expiration of the patent, April 20, 1993. Dr. Stewart also testified that AccuScan's damages from October 1990 (the date previously determined by this Court to be when Xerox received actual notice of infringement, as discussed below) through April 1993 were $198,853,590 (Tr. 369).

future revenues and calculated that if Xerox had delayed the introduction of the Docutech until the expiration of the '144 patent, April 20, 1993, this delay would have cost Xerox $413 million. (Tr. 360-62). He then divided the $413 million by the actual revenues for the Docutech from late 1990 through the expiration of the '144 patent, $500 million, and calculated that the maximum royalty rate Xerox would have paid was 83%. (Tr. 359-69, 364-65). He further testified that 83% would not be a reasonable royalty because of the numerous additional features that are contained in the Docutech; he thus reduced this figure and arrived at a royalty rate of 12.5%. (Tr. 366-369).

There are several flaws in Dr. Stewart's analysis which render his damages estimate unsupportable under the existing law. First, Dr. Stewart did not employ the well-established analysis set forth in *Georgia-Pacific*. The case of *Georgia-Pacific* sets forth a comprehensive list of evidentiary factors relevant to the determination of a reasonable royalty, which have long been followed by other courts. *See, e.g., Unisplay, S.A. v. American Electronic Sign Co., Inc.*, 69 F.3d 512, 517 n.7 (Fed. Cir. 1995); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1077 (Fed. Cir. 1983); *Gargoyles, Inc. v. United States*, 37 Fed. Cl. 95 (Fed. Cl. 1997), *aff'd*, 113 F.3d 1572 (Fed. Cir. 1997). Of course, some of these factors may be of minimal or no relevance to a particular case, and other factors may have to be molded to fit the facts of the case at hand. *See Mobil Oil Corp.*, 915 F. Supp. at 1353. Moreover, the calculation of a reasonable royalty depends on the facts of each case. *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579 (Fed. Cir. 1996). Nevertheless, Dr. Stewart's analysis was based almost exclusively on the actual revenues that

Xerox received from the Docutech product. While a royalty analysis need not mirror the *Georgia-Pacific* factors in every case, there is no support for Dr. Stewart's complete abandonment of this well-established methodology. Indeed, AccuScan fails to cite a single case approving of the methodology employed by Dr. Stewart.

Moreover, Dr. Stewart's analysis ignored, for the most part, the necessity to return to the date of infringement, here, September 1986. It is well established that in calculating a reasonable royalty, the hypothetical negotiation must take place on the date infringement began. *Unisplay*, 69 F.3d at 518; *Wang Laboratories, Inc. v. Toshiba Corp.*, 993 F.2d 858, 870 (Fed. Cir. 1993). A reasonable royalty must "relate to the time infringement occurred, and not be an after-the-fact assessment." *Unisplay*, 69 F.3d at 518. As AccuScan points out, in determining a reasonable royalty based on a hypothetical negotiation, a trier of fact may nevertheless look at "events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators." *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1575 (Fed. Cir. 1988). As the Federal Circuit has explained, future events may be considered because where years have gone by after the issuance of the patent, "[e]xperience is then available to correct uncertain prophecy." However, "to correct uncertain prophecies in such circumstances is not to charge the offender with elements of value non-existent at the time of his offense. It is to bring out and expose to light the elements of value that were there from the beginning." *Fromson*, 853 F.2d at 1575 (quoting *Sinclair Ref. Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698-99 (1933)). While future events may therefore be

considered, the analysis must, at the very least, be anchored with facts that existed at the time of infringement. *Alpex Computer Corp. v. Nintendo Co., Ltd.*, 34 U.S.P.Q.2d 1167, 1994 WL 681752, at *40 (S.D.N.Y. Dec. 5, 1994), *aff'd in part, rev'd in part on other grounds*, 102 F.3d 1214 (Fed. Cir. 1996), *cert. denied*, 117 S. Ct. 2480 (1997).

Dr. Stewart's analysis failed to do so. His analysis neglected to incorporate most of the relevant facts that existed at the time of infringement. For example, he did not incorporate the fact that Xerox's facsimile sales were unprofitable at the time of the hypothetical negotiation and that the only infringing product that was marketed by Xerox in 1986 was the 7020 facsimile machine, nor did he incorporate the fact that in 1977, AccuScan had offered a $10,000 paid-in-full, non-exclusive license under the '144 patent (Tr. 392-96, 802-803). He also failed to account for the evidence that Xerox had already developed alternative grey-scale technology in 1986. (Tr. at 551-552). Instead, Dr. Stewart focused on Xerox's actual profits from the Docutech, from 1990 forward. In order to demonstrate that he nevertheless complied with the requirement of returning to the date of infringement for the hypothetical negotiation, Dr. Stewart explained that he assumed that the parties would have known in 1986 of the importance of the Docutech product. However, this product was not even introduced until 1990, four years later. There is therefore no basis for Dr. Stewart's sweeping assumption. AccuScan points to evidence that Xerox had begun working on the Docutech in 1983, and that in 1986, there was an oblique reference to the Docutech system in Xerox's 1986 annual statement. (Tr. 347-351; PTX 181). The fact that the parties would have known

of the planned future existence of the Docutech in 1986 does not mean that the hypothetical negotiators would have fully known its importance and future profitability.[10]

An additional flaw in AccuScan's model is that it also runs afoul of the "entire market value rule." This rule "allows for the recovery of damages based on the value of an entire apparatus including non-patented parts, even though only one of the features in the apparatus is patented." *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 865 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986). Such recovery is permitted only "when the patented feature is the basis for customer demand for the entire machine." *Fonar Corp. v.*

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10. At best, the evidence AccuScan points to may support the admissibility of the Docutech profits as one factor to be considered in arriving at a reasonable royalty. With respect to an infringer's actual profits, courts have stated that evidence of future events such as the infringer's actual profits can be admissible in determining a reasonable royalty. *See Fromson*, 853 F.2d at 1576; *Trans-World Manuf'g Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568 (Fed. Cir. 1984) (infringer's profits can be admissible as probative of one of the *Georgia-Pacific* factors, the infringer's anticipated profits, including the effect of the patent in promoting the success of other products of the infringer); *Alpex Computer Corp.*, 1994 WL 681752, at *40 (actual profits can be admissible as potentially probative of the expectation for the future that the hypothetical negotiators would have had as of the date of infringement). However, such evidence is entitled to minimal weight and must be considered among many factors. *See Fromson*, 853 F.2d at 1576 & n. 13; *see also Trans-World Manuf'g Corp.*, 750 F.2d at 1568). Accordingly, while arguably there is some support for the admission of Docutech's actual revenues as bearing on the reasonable royalty arrived at in the hypothetical negotiation, there is no basis for according it the type of weight that it was accorded in Dr. Stewart's model.

General Electric Co., 107 F.3d 1543, 1552 (Fed. Cir.), *cert. denied*, 118 S. Ct. 266 (1977) (citing *Rite-Hite Corp. v. Kelley Co. Inc.*, 56 F.3d 1538, 1549 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 867 (1995)). Xerox argues that Dr. Stewart's incorporation of the entire value of revenues associated with the sale of the Docutech, which contains the Kolker invention as only one component, was improper because AccuScan failed to show that the Kolker invention formed the basis for customer demand for the entire Docutech product.

AccuScan contends that its damages base was not improperly inflated under this rule, because Dr. Stewart considered the numerous additional features contained in the Docutech in determining that a reasonable royalty rate should be 12.5%, rather that the 83% maximum royalty he had calculated. However, Dr. Stewart's reduction of the royalty rate from 83% to 12.5% was arbitrary and was not supported by any evidence in the record as to how this reduction corresponded with the proportion of the Docutech revenues that were derived from additional features, as opposed to from the Kolker invention. This arbitrariness was compounded by the fact that although the 12.5% royalty rate was calculated based on Docutech revenues, Dr. Stewart applied this same rate to the revenues from *all* infringing products — the Docutech, the 5775 color copier, SA4 scanner and the 7017/20/21 facsimile machines — in calculating AccuScan's damages, without any basis in the record for doing so. Moreover, merely because Dr. Stewart reduced the 83% maximum royalty rate does not make the royalty rate he arrived at, or indeed began with, acceptable. In other words, to simply reduce an improperly arrived at royalty rate arbitrarily, does not make the lower rate the proper royalty amount.

AccuScan also argues that, in any event, there was substantial evidence in the record from which a jury could conclude that the Kolker invention formed the basis for customer demand for the entire Docutech product. However, there is no evidence in the record that would support such a finding. As Dr. Stewart conceded, and Xerox's expert testified, the Docutech contains numerous other features and subcomponents. (Tr. 813-815). AccuScan points to evidence that the patented invention provided the best calibration method, and that the Docutech required such a method in order to produce a good quality image. (Tr. 836-37). This simply does not indicate that Xerox's use of the patented invention formed the basis for customer demand for the entire Docutech. *Cf. Fonar*, 107 F.3d at 1552 (where infringer's own literature regarding infringing product emphasized that the patented feature enhanced the infringing product's efficiency, a jury could conclude that the patented feature was the basis for customer demand for the entire product).

Finally, Dr. Stewart's analysis failed to comply with this Court's ruling with respect to Xerox's first *in limine* motion. Under the entire market value rule, liability may not be extended to include "items that have essentially no functional relationship to the patented invention and that may have been sold with an infringing device only as a matter of convenience or business advantage." *Rite-Hite Corp.*, 56 F.3d at 1550. Thus, in response to Xerox's first motion *in limine*, I ordered AccuScan to remove from its damages calculations revenues from sales of supplies, such as paper and toner. However, Dr. Stewart only removed these revenues from the royalty base, but did not remove them from the projections from which he calculated the reasonable royalty rate.

The only other evidence in the record as to AccuScan's damages, other than Dr. Stewart's testimony, was the testimony of Xerox's damages expert, David Haas. Haas testified that based on his consideration of the fifteen *Georgia-Pacific* factors, AccuScan's damages were $150,000, plus pre-judgment interest, or about $280,000 today. (Tr. 816-17). Thus, the jury, in awarding $40 million in damages, necessarily relied on Dr. Stewart's recommended royalty rate. Because it appears that the jury clearly relied on an impermissible basis in reaching its verdict, Xerox's motion for a new trial on damages is granted. *See Litton Systems Inc. v. Honeywell Inc.*, 140 F.3d 1449, 1465 (Fed. Cir. 1998).

B. The Marking Requirements of 35 U.S.C. § 287

Xerox also challenges this Court's summary judgment ruling that AccuScan had provided notice to Xerox of infringement with respect to scanners and copiers, as well as facsimile machines, by letter dated October 12, 1990. While I decline to grant Xerox judgment as a matter of law on this issue, I find that the issue of when AccuScan gave actual notice of infringement with respect to the non-facsimile machine products is an issue of fact that should have been submitted to the jury.[11]

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11. AccuScan argues that because Xerox did not seek reconsideration of this Court's summary judgment decision with respect to § 287, Xerox should not be permitted now to challenge this decision. However, a trial court has the power to reconsider the decisions it previously made on summary judgment as "further reflection may allow a better informed ruling." *Jamesbury Corp. v. Litton Industrial Products, Inc.*, 839 F.2d 1544, 1551 (Fed. Cir.), *cert. denied*, 480 U.S. 828 (1988) (quoting *Corporation de Mercadeo Agricola v. Mellon Bank Int'l*, 608 F.2d 43, 48 (2d Cir. 1979)).

Appendix E

Section 287(a) requires patentees to mark the patent number on products they sell; this duty to mark extends to products sold under license. 35 U.S.C. § 287(a); *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 906 F. Supp. 813, 816 (E.D.N.Y. 1995). A patentee who fails to mark cannot recover damages accruing prior to giving actual notice of infringement. 35 U.S.C. § 287(a). For purposes of § 287, notice must be of infringement, not merely of the patent's existence or ownership. *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994). "The actual notice requirement of § 287(a) is satisfied when the recipient is informed of the identify of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise." *SRI Int'l, Inc. v. Advanced Technology Labs., Inc.*, 127 F.3d 1462, 1470 (Fed. Cir. 1997).

On October 12, 1990, AccuScan sent a letter to Xerox stating that it believed certain Xerox facsimile machines "operate in a manner which infringes the '144 patent" and offered Xerox a license under the '144 patent. This letter did not specifically refer to scanners, copiers or document publishing systems. (PTX 64). Xerox concedes that this letter constitutes actual notice of infringement with respect to facsimile machines. Scanners, copiers and document publishing systems are another matter. Xerox contends that AccuScan never specifically accused these products of infringing until after it filed this lawsuit, some three years after the patent expired, and thus that AccuScan is precluded from recovering any damages for these products. In my prior ruling on summary judgment, I found that AccuScan's letter to Xerox on October 12, 1990 constituted actual notice of

infringement for the other accused products, as well as for facsimile machines.

Xerox argues that the notice of infringement by facsimile machines could not put Xerox on notice of infringement by scanners, copiers or document publishing systems as a matter of law. Notice under § 287 cannot merely be of the patent's existence, but must be a specific charge of infringement by a specific product. *Amsted*, 24 F.3d at 187. Thus, says Xerox, notice with respect to one product does not qualify as notice for other unnamed products, citing *Refac Electronics Corp. v. A&B Beacon Business Machines Corp.*, 695 F. Supp. 753, 755 (S.D.N.Y. 1988). In *Refac*, the patentee sent a letter to the infringer, notifying him that it owned certain patents, and listing a number of infringing items including watches, clock radios and video cassette recorders. *Id.* at 754. The patentee brought a suit alleging that the infringer's electronic blood pressure monitor infringed its patent. The court held that the letter did not constitute notice that the blood pressure device, "a wholly different device" infringed the patent in suit. *Id.* at 755. The court indicated that all of the infringing devices listed in the letter were in the watch/clock family, noting that a video cassette recorder contains clock functions. *Id.* at 755 & n. 7.

The *Refac* case is distinguishable from the instant case. Scanners, copiers and document publishing systems are not "wholly different devices" than facsimile machines. Instead, these products are all part of the same family of devices. *Refac* therefore does not compel the result that AccuScan's 1990 letter fails as notice of infringement with respect to scanners, copiers, and document publishing systems as a

matter of law.[12] Moreover, there is no authority to support Xerox's proposition that the actual notice requirement cannot be satisfied as a matter of law unless the specific accused device is itself mentioned in the notice, even where other similar devices are referred to in the notice. Instead, the Federal Circuit has emphasized that there is some flexibility involved in determining whether the actual notice requirement has been met:

> Although there are numerous possible variations in form and content, the purpose of the actual notice requirement is met when the recipient is notified, with sufficient specificity, that the patent holder believes that the recipient of the notice may be an infringer. The actual notice requirement of § 287(a) is satisfied when the recipient is informed of the identify of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether by license or otherwise.

SRI Int'l, Inc., 127 F.3d at 1470. Thus, a court could conclude, in appropriate circumstances, that notice was provided with respect to a product that was not specifically mentioned. *See T.D. Williamson, Inc. v. Laymon*, 723 F. Supp. 587, 606 (N.D. Okl. 1989), *aff'd*, 923 F.2d 871 (Fed. Cir. 1990), *cert. dismissed*, 500 U.S. 901 (1991) (where letter indicated that defendant's proposed use of a device to perform pipeline caliper likely infringed plaintiff's patent, notice requirement

12. In any event, the ruling in *Refac*, a Southern District of New York decision, while persuasive authority, is not controlling.

was complied with as, unlike in *Refac*, there was no confusion about which devices the letter was intended to cover).

That said, however, it is well established that whether § 287 was complied with is an issue of fact for the jury. *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1111 (Fed. Cir. 1996), *cert. denied*, 117 S. Ct. 1244 (1997); *see, e.g.*, *Mawell v. K Mart Corp.*, 880 F. Supp. 1323, 1339 (D. Minn. 1995); *Wokas v. Dresser Industries, Inc.*, 978 F. Supp. 839, 845 (N.D. Ind. 1997). Although I do not find, as Xerox urges, that the 1990 letter fails as notice of infringement with respect to scanners, copiers and document publishing systems as a matter of law, upon reconsideration, I conclude that it was error not to let the matter go to the jury.[13]

Accordingly, at the second trial on damages, the factual issues of whether AccuScan complied with the requirements of § 287 and when AccuScan provided actual notice of infringement with respect to non-facsimile machines should be determined by the jury. Specifically, since AccuScan granted a license under the '144 patent in 1977, which did not require the licensee to mark their products (DTX ABJ), AccuScan can only establish that it complied with the marking requirements of § 287, if it shows that no patented articles were actually sold by its licensee or that substantially all of the products sold by its licensee were marked. If it

13. Contrary to AccuScan's argument, I adhere to my prior determination that AccuScan's March 9, 1989 letter to Xerox fails to satisfy the actual notice requirement with respect to any of the infringing products as a matter of law, because it neglects to identify any products that are allegedly infringing, but merely gives notice of the existence of the patent. *See Amsted*, 24 F.3d at 187.

cannot establish that it complied with these marking requirements, AccuScan is precluded from recovering damages for facsimile machines until after October 12, 1990 and is precluded from recovering damages for the other infringing products until after it gave actual notice of infringement for these products, which issue should be determined by the jury.[14]

VI. *Willfulness*

AccuScan moves pursuant to Rule 50(b) for entry of judgment as a matter of law that Xerox's infringement of the '144 patent was willful. Whether infringement was willful is a question of fact, and willful infringement must be established by clear and convincing evidence. *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997). In determining whether infringement was willful, the primary consideration is whether the infringer, acting in good faith and upon due inquiry, had sound reason to believe that it had the right to act in the manner that was found to be infringing. *Id.* at 1464. The finder of fact is required to consider the totality of circumstances in resolving the question of willfulness, including whether the infringer obtained and followed competent legal advice. *Ortho Pharmaceutical Corp. v. Smith*, 959 F.2d 936, 944 (Fed. Cir. 1992). However, absence of an opinion of counsel, as plaintiff contends, does not compel a finding of willfulness. *Rolls-*

14. Xerox argues that if this Court does not grant Xerox's motion under § 287, then the Court should limit AccuScan's damages for scanners and copiers under 35 U.S.C. § 286. Based on the above ruling, I need not reach this issue, however.

Appendix E

Royce Ltd. v. GTE Valeron Corp., 800 F.2d 1101, 1109 (Fed. Cir. 1986).

Upon a review of the evidence and a consideration of AccuScan's arguments, I find that a reasonable jury could have found that AccuScan failed to establish by clear and convincing evidence that Xerox's conduct was willful. For example, there was evidence that upon receipt of AccuScan's March 6, 1989 letter asking Xerox to take a license under the '144 patent, Xerox investigated and responded to AccuScan's letter. (Tr. 443, PTX 62). After receiving the October 1990 letter regarding infringement of facsimile machines, Xerox launched an investigation, which resulted in an opinion by a Xerox attorney in January 1993. (Tr. 425, 443, PTX 152A). Later, Xerox obtained an opinion from outside counsel. (PTX 159). There was also ample evidence at trial that outlined Xerox's traditional patent practices, and negated a finding of willfulness. (DTZ AJZ, Tr. 562-565). Accordingly, AccuScan's motion for judgment as a matter of law on the issue of willfulness is denied.

CONCLUSION

For the foregoing reasons, Xerox's motion for judgment of non-infringement or invalidity or for a new trial on the issue of liability is DENIED, Xerox's motion for a new trial on the issue of damages, including the issue of whether plaintiff complied with the requirements of 35 U.S.C. § 287, is GRANTED and AccuScan's motion for entry of a judgment of willfulness is DENIED. The parties shall contact Chambers forthwith to schedule a mediation; allow several hours for the session. The mediation shall occur on or before

September 25, 1998. Should the session not result in closure, it may prompt a remittitur. Each side will bring to the conference at least one principle with knowledge of the facts and settlement authority and preferably no more than two lawyers. No papers are necessary.

SO ORDERED.

New York, New York
September 10, 1998

s/ Harold Baer, Jr.
U.S.D.J.